The Impact of adopting International Accounting Standard (IAS12) on tax accounting

An applied research of Regional Trade Bank for Investment and Finance in Iraq for the year (2023)

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Abstract:

This research investigates the impact of Appling international accounting standard (IAS 12) on tax accounting through an applied analyses of financial statement of Regional Trade Bank for Investment and Finance in Iraq for the year 2023. This research examines the extent to which the adopting of (IAS12) in fluences the recognitions and measurement of current and deferred tax assets and liabilities and it's impacts on the determination of taxable profit.

The descriptive-analytical methodology has been applied, the research analyses the banks financial statements before and after the application the standard, with the objective of assessing the result adjustment in the financial statement items on their implication for the tax accounting practices. The results show the application of (IAS 12) significantly enhances the accuracy of tax related discloser, raises the transparency of reporting tax liabilities and assets, and contributes to the effectiveness of tax accounting in general and the quality of financial reporting. Yet, the research recognizes that the contextual challenges in Iraq, in particular the Inconsistency between IAS`s prerequisite and Iraqi`s tax law & legislation, resulting in the possibility of delay in compliance & Successful implementation. In conclusion, the research recommends reforming tax legislation to align with (IAS12), alongside capacity building initiative for accounting professionals in the domain of tax accounting, to ensure the effective application of the standard and promote transparency and fairness and reliability with financial reporting system.

Key words: International Accounting Standard 12 (IAS12), Regional Trade Bank for Investment and Finance (RT bank), tax Accounting, Tax Assets, Tax Liabilities, and deferred tax.

Introduction:

The adoption of international accounting standard has become fundamental to promoting transparency, reliability, and comparability in financial reporting across global. Among the set of IFRS standards, IAS12 govern income taxes, occupies a central role by ensuring that the accounting treatment of income tax accurately reflects both current and deferred tax consequences arising from an entity's financial performance. IAS requires entities to recognize current tax assets and liabilities based on taxable profit for reporting period, as well as deferred tax assets and liabilities resulting from temporary differences between the caring amount of assets and liabilities in the financial statements and their corresponding tax bases (Rodriguez-Saavedra et al.,2025) & (IFRS Foundation, 2024). From an Iraqi perspective while local accounting regulation & tax driven practices have historically dominated, the approval of International Accounting Standard 12 delivers a Fundamental basis for assessing its impact on tax accounting practices & quality of financial reporting, and to comply with financial institutions guidelines. The IAS12 provides robust requirements to acknowledge of deferred income taxes & the arrangement of tax related information, additionally improves the precision, reliability and comparison of financial statements. The objectives of this research are to evaluate how (International Accounting Standard 12) impacts on Tax Accounting framework through exploring the influence on improving the precision, reliability & comparison of tax accounting. By application of analysis of the financial statements Regional Trade Bank of year (2023). This research seeks to demonstrate the application of (International Accounting Standard 12) strengthens the planning between tax regulation & standards of financial reporting. furthermore, it enhances the reliability of transparent tax accounting practice.

1.1 The core purpose of the research are as follows:

a) conducting an analysis process for the purpose of recognizing deviation in the year 2023 in financial statement of RT bank through measuring, identifying & demonstrating tax related items by implementation of International Accounting Standard 12.

b) Assessing the application of International Accounting Standard 12 and its affects on current applicable tax & accounting framework, emphasizing in particular dealing with liabilities and deferred & current tax assets.

c) Supporting the application of The International Accounting Standard 12 with pbjective of establish and encourage more transparency, consistent & unbiased practices in tax accounting in Iraq.

d) Strengthening initiate more compliance, productivity and uprightness in tax administration & financial reporting by providing an understanding & suggestions for legislators, decision makers, and experts in regard to application of The International Accounting Standard 12

1.2 Research Problem:

while there is widespread globally for recognition and application of International Accounting Standard 12) for the purpose of strengthening of disclosure and reliability for items of Tax & its measurements, in the Iraq`s context the financial Reporting System purely dependent on local accounting regulations which is linked to local tax regulations not IAS`s. this system leads to creation of Gaps & separate between taxable profit & accounting profit, in return created more limitation for deferred tax Assets with accountabilities & reduction of consistency, comparison & in general the quality of financial statements system in context of Iraq. The main research problem based on the inconsistency of current application of local accounting system and an international accounting standard that urgency of using empirical examination of likelihood of any impact of implementing of (International Accounting Standard 12) in the banking sector in Iraq for better understanding the Tax Accounting Practices.

Based on that, this research aims to answer the key questions around the impact of application of IAS 12 in Iraq on the Tax accounting through application of the international standard on financial statements for year 2023 of the RT Bank, thus the core problem of this research to address the following questions:

A. The extent of (International Accounting Standard 12) effect on implementation on measurements, showing, acknowledgements of tax related items in the financial statements?

B. The extent of (International Accounting Standard 12) effect on implementation on disclosure of differed tax, transparency of tax while positioning among taxable and accounting profits in the context of financial reporting?

1.3 Research Hypothesis: this research relies on the core hypothesis that the application of the IAS 12 shall strength`s proficiency & precision of the Tax Accounting System through enhancing liabilities, Tax Assets and improving the transparency of financial reporting, thus the main hypothesis suggested based on the following sub-Hypothesis:

a) The International Accounting Standard 12 leads to more precision of liabilities & deferred tax assets in comparison with current local applicable frameworks in Iraq.
b) Enhancing comparison & translucence in tax accounting information within financial statements through application of International Accounting Standard 12.
c) Reduction of gaps between Taxable & Accounting profits by application of International Accounting Standard 12 through positioning tax reporting and principles of accrual-based accounting, thus strengthening the accuracy of tax accounting in general.

1.4 The importance of the research

Following points highlights summery of the importance of the research:

1. Support of strengthening of economic growth through healthy tax accounting: havening a resourceful & effective tax accounting plays crucial role in in creation of an inclusive and sustainable economic and the ability to harmonize tax legislation in Iraq.
2. Developing the connection & relationship between International Standards & Tax Accounting: the importance of this research lies in enhancing the conceptual & applied development of tax accounting systems; accordingly, this research will lead to better understanding alignment of tax accounting with the International Accounting standards requirements.
3. Encouraging integration of international & Local accounting guidelines: it is essential to develop a professional skill of accounting and achieve a tangible impact of accounting practices on the economy, and to understand the importance of align the accounting ecosystem in Iraqi banks and financial institutes with the applicable international Standards in the banking sector.
4. Attention to good governance, support professional competencies, & Transparency: in case of implementing (IAS 12), it will enhance the governance of institutions and companies, contribute to supporting economic initiatives and developing professional skills, and form a strong foundation for consistent tax accounting practices in the field of tax accounting in Iraq.

2. Research Methodology:

2.1 Research design: to achieve the research`s objectives, the research adopted descriptive analytical methods. Both theoretical and practical, methods have been used to fulfill its hypothesis, the following methodology will be used to collect the necessary data:

1) **Theoretical Aspect:** the theoretical aspect of the research is based on a diverse range of scholarly sources, including Arabic and foreign books and periodicals, university theses and dissertation, as well as utilizing open-source information available through the internet (the World Wide Web).

2) **Practical Aspect:** The practical aspect of the research relies on the analysis of relevant data and financial statement of the bank selected for research, in addition to utilizing final accounts, legislation, laws, regulations, and instructions relevant to the subject of the research.

1.2 Research limitations: the research limitations are as follows:

1. Spatial Boundaries: The Regional Commercial Bank for Investment and finance was chosen as the research sample.

2. Temporal Boundaries: the year (2023) was selected to conduct the research on a sample of the bank`s financial statements, reports, and tax accounting records.

3. Literature review:

1. research by Mahmoud and Ahmed, titled "The Impact of Applying IAS 12 Income Tax on Activation of the of the Tax System", aimed to evaluate the effect of applying IAS 12, which address income tax on improving the efficiency and effectiveness of the tax system. The research employed mixed method, including exploratory and analytical techniques, to conduct qualitative analysis through interviews and structured surveys with a sample of professional accountants, academic and tax experts. The results showed that applying IAS 12 significantly improves the accuracy and transparency of tax related financial reports.
2. The research by Sulaiman & Salman Al janabi (2022) titled "The Extent of the Iraqi Environment's Response to the requirement of IAS 12 regarding income tax determination. A sample of companies registered with the general Authority for taxes was selected, and their financial and tax data were collected. The research found that there is disparity in the context to which Iraqi companies apply (IAS 12) While some companies have shown a good response to the standards requirement mainly there is challenges in fully implementing.
3. The research by Egbunike & Okoye, (2017), titles "tax Implications of IAS 12 EdeAdoption" the research aims to understand how this standard affect the recognition and measurement of deferred tax and subsequent effects on tax liabilities and earning management within these banks. The research sample consist of a group of financial deposit banks (DMBs) listed on the Nigerian Stock Exchange. the comparative analyses from the periods before and after adopting (IAS 12) to identify changes in reporting and deferred tax management, focusing on deferred tax assets, deferred tax liabilities, total assets, total liabilities and pre- tax profit. The research concluded that the adoption of (IAS 12) lead to significant change in the reporting of deferred tax assets and liabilities for Nigerian DMBs. Adopting IAS 12 will improve transparency and consistency in financial reporting within banks, leading to better compline with tax regulation.
4. Edeigba, Gyapong and Vincent Konadu Tawiah (2023) titled (Analyses of unintended consequences of IAS 12 on deferred taxes) the research aimed to examine the relationship between the international accounting standard (IAS 1) and deferred income tax associated with tax and accounting rules. A large sample of balanced data from 144 firms across 1992-2019. To mitigate problem. The author used econometric estimations to establish the impact of IAS 12on deferred tax. The findings show deferred tax assets decreased significantly, whereas deferred tax liabilities increased significantly after applying IAS 12. The implementing IAS 12 increased conservatism and prudence.

4. Theoretical Framework

4.1 The concept and Definition of Taxation: Taxes are vital tools used by countries to secure the necessary financial resources to fund public services, achieve social justice, and promote economic stability (Sarmento, 2023, p.9). According the organization of Economic Co-operation and development (OECD) taxes is "mandatory payments made to a government to state authority. They are not merely a passive means of collecting revenue, but rather an effective tool in guiding economic behavior, influencing investment decisions and regulating consumption patterns, contributing to sustainable economic growth" (OECD, 2024, p.22).

"Tax is a "financial sum imposed by the state or any governmental entity on a mandatory basis and collected from individual as a final payment to achieve the economic and goals that the state seeks to achieve" (Mashkour et al., 2014: p.20).

The researchers believes that taxation functions as an effective financial and regulatory tool in the hands of the government, used to achieve a balance between the requirements of the public finance and the goals of economic and social development.

4.2 The concept and definition of tax accounting: Tax accounting is a specialized branch of accounting that focuses on organizing, analyzing, and managing tax-related matters. It serves as a link between financial accounting and taxation, ensuring that the financial results associated with tax liabilities are accurately reflected in the financial records of the economic entity. Tax accounting primary focuses on determining taxable incomes. Calculating tax liabilities, and identifying current and deferred tax effects arising from temporary differences between accounting profit and taxable profit (Bergner& Heckemeyer, 2017, pp. 581).

4.3 The scope of tax accounting: Brunetti indicates that tax accounting represents a set of methods and procedures used in preparing and submitting tax returns, calculating the liabilities of taxpayers, and ensuring compliance with the provisions of applicable tax laws and regulations (Brunetti, 2023, p.25). Tax accounting includes the process of recording and reporting on tax liabilities, whether for individuals or companies.

Tax accounting aims to determine the precise value of amounts owed by taxpayers, ensuring compliance with tax regulations and achieving fairness in bearing the financial burden. It is often affected by the implementation of laws (Bergner& Heckemeyer, 2017, pp. 582). The primary objective of tax accounting is to ensure the accuracy of tax returns and compliance with regulatory requirements (PKF International Ltd, 2021),, while simultaneously striving to reduce the tax burden through effective tax planning. Tax accounting is also an essential tool for calculating taxable income and expenses, preparing related reports, and determining the applicable tax rates for economic units or different types of transactions in accordance with current legislation (Anderson et al., 2023, p130).

4.5 International Accounting Standard (IAS12): IAS 12 specifies the accounting for income taxes, including present and deferred taxes. The international accounting standard (IAS 12) aims to ensure the correct recognition and disclosure of the tax effects of transactions and events in the financial statements in an accurate, common, and transparent manner. This includes recognizing present tax liabilities or assets at taxable or deductible amount, as well as dealing with deferred tax liabilities or assets resulting from temporary differences between the accounting treatment and the tax assessments of assets and liabilities (Rodriguez-Saavedra et al.,2025) & (IFRS foundation, 2023, p. 1087).

4.6 International Accounting Standard (IAS 12) Requirements: There are Two methods for treating deferred taxes:

1. Balance Sheet or tax liability method, and the income statement or deferred tax methos. IAS 12 Requires the use of the tax liability method, which is based on the balance sheet approach. This method involves accounting for temporary tax differences between accounting requirements and the tax base through assets and liabilities. The standard prohibits the use of the deferred method, which related to accounting for time differences between the accounting and tax requirements for revenues and expenditures (Deloitte,n.d).
2. Income statement method or deferred taxes, deferred income tax is calculated based on the tax rates in effect when temporary differences arise, and the deferred tax balance is not adjusted to account for any subsequent changes in tax rates or to impose new taxes (Akarçay, 1999). This method focuses on the tax effects of temporary differences only during the current fiscal year (PKF International Ltd, 2021), whether these differences are newly arising or resulting from previous fiscal years and have an effected tax liabilities in the current year (Abu Nassar Humaidat, 2014: p. 209).

4.7 The objective of International Accounting Standard (IAS 12):

This standard aims to provide users of financial statements with accurate information that helps them understand the impact of taxes on income, the balance sheet, financial performance, and cash flows of economic entities (PKF International Ltd, 2021). The standard contributes to enhance the transparency and liability of financial statements with regards to income taxes and improves the comparability of financial statements between different economic entities by standardizing the accounting methods used in this area (Mia,2021). Furthermore, the standard clarifies how to calculate income taxes and focuses on the fundamental principles of accounting for current and future tax liabilities, ensuring accurate representation of the financial effects of taxes. the standard focuses on clarifying how to calculate income taxes and addressing the current and future effects of the taxes, including the following (income Taxes, n.d.):

a) Future liabilities and assets recorded in the economic entity`s statement of financial position.
b) Events and transactions occurring during the current financial period and presented in the economic entity`s statement.
c) Recognition of all deferred tax assets resulting from unrealized tax losses.
d) Recognition of deferred tax liabilities arising from taxable temporary differences.

4.8 Scope of the standard (IAS 12): the areas of application of this standard can be summarized as follows (Edeigba & Tawiah,2023:467):

a) Includes all income taxes, whether domestic or foreign, levies on taxable profits.
b) Includes other income taxes, such as withholding taxes payable by subsidiaries, associates, and joint ventures when they distribute profits to the parent company

This standard does not include:

1) Accounting treatment of government subsidies and disclosure of government subsidies. 2)Tax exemptions the encourage investment, but which includes consideration of temporary differences that may arise from there grants and tax exemption (Abu Nassar & Humaidat, 2019, p. 181)

Third: The practical Aspects

5.1 The overview of the Regional Commercial Bank for Investment and finance

The Kurdistan Regional Commercial Bank for Investment and finance is a leading banking institution that has contributed to the development of the financial and banking sector in both the Kurdistan Region and Iraq. The bank was established on July 20, 2001, based on registration certificate Number (282) issued by General Directorate of Companies Registration in the Kurdistan Region, as a limited liability company with an initial capital of US$ 200 Million. The bank received approval from the central bank of Region to issue incorporation certificate number (493) on July 20, 2001, enabling it to commence its banking operations in accordance with the applicable legal and regulatory frameworks (Rtb.Iq,2026).

5.2 Application of (IAS 12) Income Tax and it is impact on tax accounting: This section addresses the application of (IAS 12) income tax and its Impact on tax accounting. It presents the income statement and balance sheet of the (RT bank), examines the process of identifying permanent and temporary differences, and explains the adjustment of taxable income based on these differences. This section also illustrates the impact of these adjustment on the bank's income statement and balance sheet for the period 2023.

First: Permanent tax differences for the year 2023: a number of banks expenses recorded in 2023 non-deductible for tax purposes and therefore are not included within the taxable base.

These items can be treated as follows:

a) Non-income tax deductible expenses: a discrepancy was identified between the tax assessment figure determined by the tax authority and the figure anticipated by the external auditor based on the reconciliation statement. The divergence necessitated a formal inquiry and subsequence deliberation involved both the tax assessor and the institution's management.
b) Following consultation with the assigned tax assessor and the bank`s financial manager, it was established that the tax assessor had disallowed a category of expenditures totaling of 4,308,190,187 IQD. These disallowances encompassed both directly rejected expenses and additional adjustments arising from the transfer statement generated during the conversion of accounting profit to taxable income.
   After further analysis in regards to the allowing of these expenses, the assessor clarifies that such expenditure is considered inadmissible as they contravene the provision of income tax law No.11 of year (1982). In particular, certain expenditure were disallowed due to the insufficient of supportive documents or lack of substantive evidence.
   Table (1) provides detailed breakdown of the Non-Income Tax deductible expenditure with corresponding permanent tax differences.

Table 1- Taxable income adjustments, of year 2023 calculated in IQD currency from bank`s data

Details	**2023**
Net profit from current operations	**48,572,766,115**
Less: not taxable revenues	0
Add: Non-deductible expenses for tax purposes	
Provision and reserve expenses (commitment and expansion reserves)	3,912,663,553
Provision maintained with the central bank	355,590,274
Taxes, fees, and procedures are not permitted	39,936,360

Total non-deductible expenses	4,308,190,187
Taxable income	**52,880,956,302**
Taxable income15%	**7,932,143,445.3**

source: prepared by the researcher based on the bank`s official data

Table (3) illustrates a significant disparity between the accounting income, which amounted to (48,572,766,115) IQD on the taxable income, which reached (52,880,956,302 IQD) resulting in a difference of (4,308,190,187 IQD).

If statutory rate of (15%) applied to the existing difference, this would lead to an amount of (646,228,528 IQD) of current tax liability. This deviation shows the effect of temporary & Permanent differences among tax bases & Accounting in identifying the actual tax that would be borne by RT bank.

B. Accrued revenues & expenditure of year 2023:
the bellow items highlight the accrual revenues & expenditure recorded within financial statements and several other accounts during period of financial year, which reflects the historical discrepancies in the accounting acknowledgement of financial items. Table (4) illustrates selected items classified under accounts receivable and other liabilities in the bank1s balance sheet, which are predominantly associated with tax calculations. In accordance with the matching principles- which mandates that revenues and expenses be recognized within the same financial period- these timing differences generate deferred tax assets and liabilities that may be estimated and accounted for as outlined below.

Table (2) deposits and receivable for expenses and revenues of the bank sample in the research for the year 2023.

Table (2) prepaid and accrued revenues on the expenses for the year 2023.

Debits & Debit Balances		Other liabilities	
432,198,764	Accrued Revenue	789,504,896	Deferred Revenue
432,198,764	Total accrued revenue	789,504,896	Total deferred revenue
221,603,074	Prepaid expenses	11,112,085,517	Outstanding expenses
221,603,074	Total prepaid expenses	11,112,085,517	Total Accrued Expenses

source: prepared by the researcher based on the bank`s official data.

Offsetting of accrued revenues and expenses

The Offsetting of accrued revenues and accrued expenses for RT bank during the fiscal year 2023 is presented in table (3). This process reflects the bank`s approach to reconciling items arising from timing differences in revenue recognition and expense allocation. As illustrated in the table, this offsetting procedures is conducted to ensure that reported figures more accurately represent the financial events pertaining to the same accounting period, in accordance with established principles.

Table (3) offsetting between accrued revenues and accrued expenses for the bank sample for the year 2023.

Details	2023
Accrued Revenue	432,198,764
Accrued Expenses	11,112,085,517

Net Accrued Expenses	(10,679,886,753

source: prepared by the researcher based on the bank`s official data.

Table (3) indicates that after offsetting the accrued revenues against accrued expenses the resulting balance is a net accrued expense of (10,679,886,753) IQD. When the statutory tax rate of 15% is applied to this balance, it generates a corresponding deferred tax rate asset amounting to (1,601,983,012.95) IQD, this reflects the tax effect of timing differences arising from the recognition of these items in the financial statements.

-Offsetting between prepaid revenue and prepaid expenses: the Offsetting prepaid revenue and prepaid expenses for the RT bank for the fiscal year 2023 can be undertaken as presented in table (4) this offsetting process reflects the bank`s adjustment of advanced payments and unearned revenues to ensure their proper allocation within the relevant accounting period.

Table (4) offsetting between revenues received in advance and expenses paid in advance and expenses paid in advance to the bank sample for the year 2023.

Details	2023
Prepaid revenue	789,504,896
Prepaid expenses	(221,603,074)
Net Prepaid revenue	567,901,822

source: prepared by the researcher based on the bank`s official data.

After offsetting the prepaid revenues against the prepaid expenses, the resulting balance shows net prepaid revenue of (567,901,822) IQD, applying the statutory tax rate of 15% to this amount gives rise to a deferred tax liability of (85,185,273.3) IQD, reflecting the tax effect of the related timing difference.

Note: amounts presented with a positive sign are treated as deferred tax assets, whereas amounts show with a negative sign are classified as a deferred tax liability.

-Offsetting Deferred tax assets and liabilities: the process offsetting deferred tax assets against deferred tax liabilities for RT bank during the year 2023 financial years was conducted in accordance with the data presented in table (5) as follows:

Table (5) offsetting of deferred tax assets and liabilities for the bank under research for the year 2023.

Details	2023
Tax Assets	1,601,983,012.95
Deferred Liabilities	85,185,273.3
Deferred tax Assets	1,516,797,739.65

Source: prepared by the researcher based on the bank's official data

After determining the total temporary difference given rise to the tax liabilities in accordance with the provisions of (IAS 12) income taxes, as presented in table (5) above, the corresponding accounting journal entry is recorded as follows:

	Debt	Credit
Current Income tax expense account	646,228,528	
Differed tax assets account	1,516,797,739.65	
Income tax due account		2,163,026,268

Reconciliation of assets, deferred Tax liabilities, and income tax payable for the year 2023.

Third: financial statements of RT bank: the financial statements of RT bank for the year 2023, after applying IAS 12, can be presented as follows:

Table (6) income statement and other comprehensive income of RT bank as of (December 31, 2023).

Account name	Before applying IAS12	After Applying IAS12
Credit interest	5,138,922,619	5138922619
Borrowed interest	(977812430)	(977812430)
Net Revenues of interest	4161110188	4161110188
Creditors fees and Currencies	73189446563	73189446563
Debtor fees and Currencies	(5588295043)	(5588295043)
Net income from fees, and Currencies	67601151520	67601151520
Net income from interest, fees, and Currencies	71762261708	71762261708
Net revenue from buying and selling foreign currencies	9616718506	9616718506
Revenue from buying and selling currency	11436149215	11436149215
other income	3619691582	3619691582
Net operating income	96434821011	96434821011
Staff expenses	(6959609494)	(6959609494)
Depreciation and amortisation	(3407587572)	(3407587572)
Net allocation for recovering the lowering of the direct cash facilitations	(1008606033)	(1008606033)
Expenses allocated to the Central bank, Foreign and domestic bank	11787316363	11787316363
Miscellaneous allocation undertaking operational risk	(6983467303)	(6983467303)
Other Assets Expenses	(387791312)	(387791312)
Other operating expenses	(17582971355)	(17582971355)
Total operating expenses	(47862054896)	(47862054896)
Profit before Expenses	48,572,766,115	48,572,766,115
Income tax 15%	(7,285,914,917)	(7,285,914,917)
Current Tax liabilities		646,228,528

Current Tax Expenses		(7,932,143,445)
Temporary Tax Assets		**1,516,797,740**
Income Tax Due (Income Tax Expense + Current Tax Liabilities + Temporary Tax Assets)		(9,448,941,185)
Profit for the year after tax _ Income tax due	40,640,622,670	**40,640,622,670**
The Mandatory Capital Reserve Under the companies Law is 5%	2,032,031,134	1,956,191,246.5
Profits available for Distribution (Net Income from Current Operations - Income tax Payable + Income tax Adjustments related to prior years) - Mandatory Capital Reserve 5%	**38,608,591,537**	**37,167,633,683.5**

Source: prepared by the researcher based on the bank's official data

After the application of IAS 12 to the income statement of RT bank for the year 2023, several adjustments were introduced to the components of the statement. This adjustment is including the recognition of current tax liabilities amounting to (646,228,528 IQD), arising from permanent differences that are not acknowledged by the tax authorities. In addition, tax assets totaling (1,516,797,740 IQD), where recognized because of temporary differences related to receivables and expenses.

In accordance with the requirements of IAS 12, this adjustment is influencing the calculation of the statutory mandated 5% capital reserve, thereby exerting a direct effect on the profits available for distribution.

Table (7) represents the general Budget of Regional Trade bank for investment as of December 31, 2023 after applying the international Accounting Standard 12.

Account name	**Before applying IAS12**	**After Applying IAS12**
Assets		
Cash and balances in the central Bank of Iraq	519,758,529,828	519,758,529,828
Balances at banks (foreign + local)	135,168,675,947	133,651,878,207.35
Net direct credit facilities	63,591,325,466	63,591,325,466
Net investment	5,799,190,280	5,799,190,280
Provisional Tax Assets		**1,516,797,739.65**
Tangible fixed assets	216,642,166,746	216,642,166,746
Intangible fixed assets	1,526,767,036	1,526,767,036
Projects under implementation	4,387,377,051	4,387,377,051
Other assets	54,172,821,800	54,172,821,800
Total assets	1,001,046,854,695	1,002,563,652,435
Liabilities and shareholders' equity		
Liabilities		
Bank deposits (current / demand accounts)	30,909,235,816	30,909,235,816
Customer deposit	519,594,142,367	519,594,142,367
Cash insurances	30,669,263,154	30,669,263,154
Borrowed money	14,155,767,717	14,155,767,717
Miscellaneous allocations	23,870,421,378	23,870,421,378
Accrued Tax	0	**2,163,026,268**

Income tax provision	8,664,937,145	8,664,937,145
other requirements	13,691,239,292	13,691,239,292
Total liabilities	641,555,006,868	**643,718,033,136**
Shareholders' equity		
Paid capital	300,000,000,000	300,000,000,000
Legal reserve	8,034,512,180	8,034,512,180
Expantion Reserves	1,000,000,000	1,000,000,000
Realized accumulated profits	50,457,335,647	**49,811,107,119**
Total Shareholders equity	359,491,847,827	**355,678,025,908.05**
Total Liabilities / Shareholder's Equity	1,001,046,854,695	1,002,563,652,435

Source: prepared by the researcher based on the bank's official data

Following implementation of International Accounting Standards 12, a comparative review shows that Regional Trade Bank for Investment, a tangible structural change has emerged, which lies in the enclosure of temporary assets in the assets section of the Balance sheet.

It is worth noting that this amendment directly impacts the bank`s actual cash flows, not just a simple review of financial reports. Especially when examining the section classified under "Balance with a Banks" International and locals. Furthermore, there is previous cash outflows related to tax liabilities arising from the deferred & prepaid revenues. Which will undoubtedly affect the bank`s ability in managing short term liquidity.

Therefore, applying International Standard Accounting 12 will facilitate a clearer audit and a more comprehensive view of the differences between the tax expenses measured compared to the use of Iraqi accounting standards No. 13 and the tax expenses calculated under the international Standard, because such analysis will be an important foundation for facilitating the process of evaluating the effects of tax and accounting policies on the bank1s net profit and the bank`s cash flow position

Reviewing provided information in Table No. (8), and comparative information, highlights how application of (IAS 12) leads to the streamline of liabilities and thus leads to enhancing the precision of financial reports. Therefore, the application of IAS 12 leads to consistency in information related to liabilities, as well as transparency, meanwhile leads to improve management and governance in the bank and making well-considered investment and financial decisions.

From this point of view, application of International Accounting Standard 12, not only compliance with requirements of reporting, but, Strengths the bank`s analytical capacity to evaluate its financial performance, while improving its ability to manage tax-related risks and optimised cash flow more effectively.

Table (8) Tax Expense before and after application of (IAS 12) to the RT bank for the Yeas 2021-2022-2023

Year	Before (IAS)	After (IAS)	Difference
2023	7,932,143,445	**9,448,941,185**	1,516,797,740

Source: Prepared by the researcher based on table (8-9)

After deducting income tax expense of (7,932,143,445) dinars, current tax liabilities of (2,163,026,268 IQD), and temporary tax assets of (1,516,797,739.65) dinars from net income from current operations of (48,572,766,115) dinars for 2023, a 5% rate is applied to the remaining amount to determine the mandatory capital reserve, which amount to (1,956,191,246.5 IQD). This reserve is part of the bank`s regulatory policies, reflecting its commitment to the minimum required capital to ensure financial stability and protect shareholder`s rights.

After deducting the mandatory capital reserve, the income tax expense related to the above items, the accrued tax expense, current tax liabilities, and temporary tax assets from the net profit from ongoing operations, the net profit attributable for 2023 can be determined. Therefore, this process allows for an accurate measurement of the bank`s actual financial performance, and the process is a harmonizing between local tax laws and the requirements of international accounting standards.

Therefore, there is direct effect on the shareholder`s equity ratio, and these changes in the difficult profit are expressed in the section on adjusted comprehensive profit attributable to the bank`s contribution, as shown in table (8 & 9). The table shows the income tax expense calculated in accordance with international accounting standards No 9. In addition to the total shareholder`s equity in accordance with Iraqi accounting law No 13. This approach reflects the integration of international & National accounting principles in how profits & Taxes are measured, and focus on the importance of having an accurate and reliable financial information system to administrate and develop investment, managing and governance decision within the bank

Table (9) highlights shareholder`s Equity of Regional Trade bank after & before and after applying (IAS 12) for the year 2021-2023.

Year	Before (IAS)	After (IAS)	Difference
2023	359,491,847,827	**355,678,025,908.05**	**3,813,821,918.95**

Source: Prepared by the researcher based on table (8-9)

Table (9) explain the effect of the income tax payable on the total shareholder`s Equity, that amounts to (**3,813,821,918.95) IQD** for year 2023.

5.3 Testing & Examination of the research hypothesis:

Based on the foregoing analysis, and after application of (IAS 12) also calculating the related tax differences, the following conclusion and observation can be drawn:

1- Applying International Accounting Standard 12 to RT bank`s Financial Statement uncovers several operational variations across several reporting elements; thus, these variations show the direct impact of Tax policy on both of the measurements of Tax-Related assets & Liabilities and classifications of any financial statements.
2- One of the crucial set of data in the RT Bank is their deferred tax, total of (1,516,797,740) IQD, therefore it considered as part of current assets because they are the outcomes of deductible temporary differences, thus it is an amount that expected from bank`s point of view to be recovered in next period by the way of reducing taxable profits. Accordingly, the expected results of Hypothesis 1A, which states that applying (IAS 12), may improve the accuracy and completeness of the recognition of items related to taxes compared to the principal accounting practices in banking sector in Iraq. And the objection to deferred tax assets reflects the bank`s capability to anticipate and manage future tax liabilities in an organized and systematic approach.
3- From analysis perspective there are total of (2,163,026,268) IQD of Deferred tax liabilities, this figure shall be recorded under tax due for future period of the bank. This is as significant indication of possible tax liabilities on the bank; thus, income tax can only be recognized by Iraqi Accounting system after

assessed by tax expense authority or becomes actual payment. Meanwhile under International Accounting System 12, explicitly recognizes any current tax expense at the time taxable income earned, despite succeeding period of occurring actual payments. Therefore, the above amount shown shows that the current tax base is different and shows that previous estimated recorded figure of the Iraq local system lower compared with the time of applying IAS 12. This indicates the differences between taxable incomes and accounting income because of differences between measurements and of the period of considering. Above results and conclusion are inline with Hypothesis (H1b), furthermore if Iraqi banks start to apply International Accounting System 12, this will lead to a more transparency in tax accounting, reliability and enhance comparability of tax accounting in general.

4- As a result of the recalculation of taxes in accordance with the provisions of the Iraqi income tax low No. (113) of 1982, as amended which determines the taxable base and the tax rate imposed on income, the current income tax expense included in the income statement increased by (IQD 2,497,751,649.3) This increase is a natural consequence of applying international accounting standard and is consist with the requirements of (IAS 12), particularly paragraphs 12-14, which mandate the recognition of current tax for the period as an expense and liability as long as it remains unpaid.

5- As a result of increase in deferred tax differences and new tax expenditures, legal reserve decreased by (IQD 1,956,191,246.5) while shareholder's equity decreased by (IQD 3,813,821,918.95). Applying (IAS 12) in this context is an effective tool for enhancing the clarity and transparency of the presentation of tax liabilities, although it leads to decrease in reported accounting profit, which may affect dividend policies and tax strategies, and consequently, the components of equity. (IAS 12, Section A61) indicates that differed tax effects shall be included directly as part of equity which arise from any recognized transaction outside of loss or profits. The objective is to have a an integrated and a comprehensive position for tax equity, while presenting the balance sheet at the same time showing the impact of tax that related to equity. In conclusion above finds are aligns with Hypothesis (H1c), emphasizing on diminishing any differences between taxable & Accounting profits, while promoting a more precision of financial positioning and a more capable tax accounting.

6- The increase in income tax expense by (IQD 1,516,797,740) and the subsequent decrease in distributable profit by (IQD 1,440,957,853.5) highlight the impact of applying (IAS 12) on the measurement of bank profitability. This change reflects the increased immediate recognition of current tax liabilities and deferred tax adjustments during the same financial period.

6. **Conclusion and recommendations**:

6.1 Conclusions:

Through the examination and analysis of the impact of applying (IAS12) on tax accounting at the RT bank, the researcher reached at several key conclusion, which may Summarized as follows:

1. (IAS 12) represents an important international accounting standards governing the treatment of income taxes corporate financial reporting. The standard seeks to ensure that the effects of taxation tax liabilities and deferred tax positions.
2. Enhancing the accuracy in assessing the tax problem: the adoption of (IAS 12) has improved the accuracy of calculating actual tax expense for each reporting period by systematically identifying and recognizing temporary differences between the accounting and tax basis of assets and liabilities.
3. Recognition of deferred tax assets and liabilities: the application of (IAS 12) has simplified the identification of temporary differences that give rise to both deferred tax assets and tax liabilities, thus capturing the future tax imports associated with current transactions and financial events. These effects were not fully recognized under the traditional local accounting system.

4. The implementation of international accounting standard (IAS 12) has improved the level of disclosure and transparency regarding tax related information presented in the financial statements.
5. The results from the application of (IAS 12) shows a notable reduction in net accounting profit during the initial periods of implementation. This reduction primarily attributed to the increase in both current tax expenses and deferred tax expenses, which has direct impact on retaining earnings and subsequently on shareholders equity.
6. The application of (IAS 12) on tax accounting on RT bank's financial statements Improves the transparency of tax accounting by systematically recognizing both deferred tax assets under fair tax liabilities by more equitable and realistic representation of the bank's financial position.

6.2 Recommendations

Recommendations for economic Entities

1. It is recommended to adopt a phased approach to implementing International Accounting Standards (IAS) with particular emphasis on (IAS 12) Income Taxes.
2. It is recommended to create specialized units within the financial department's tasks with the identification and measurement of deferred tax assets and labilities.
3. It is essential to implement specialized training programs for accounting personal aimed at expanding their understand of interaction between local tax system and international accounting standards.
4. It is recommended to develop financial information system capable of monitoring both temporary and permanent differences in the carrying amount of assets and liabilities.

Recommendations for Iraqi tax authorities:

1. It is recommended that local tax legal framework be reviewed and updated to achieve alignment with international accounting standards.
2. The financial institution should encourage to present clear and comprehensive tax related information in accordance with (IAS 12) this practice will improve the transparency, support the preparation of accurate financial statements.
3. Recommended to enhance collaboration between the central bank of Iraq and other relevant regulatory bodies to harmonies the adoption of accounting standards.
4. A comprehensive national guide should be prepared to support the application of (IAS 12) within banking institutions and large enterprises.

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